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C O N F I D E N T I A L SECTION 01 OF 02 JEDDAH 000184

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RIYADH, PLEASE PASS TO DHAHRAN; DEPARTMENT FOR NEA/ARP

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TAGS: [EAGR](#) [ECON](#) [EFIS](#) [ELAB](#) [SENV](#) [SA](#)  
SUBJECT: FOOD VS. WATER: FARMS FACE CONFLICTING GOVT  
PRIORITIES

Classified By: Acting Consul General CB Toney for Reasons 1.4 (b) and (d).

11. (U) As farmers throughout the Hijaz prepare for the phase-out of the SAG's 30-year drive for wheat self-sufficiency, many wonder if recent increases in food prices could cause the government to reconsider. The Ministry of Agriculture's January decision to move gradually to full reliance on wheat imports follows decades of groundwater depletion by domestic farming. Recent trips by Pol/Econoffs to the western regions of Tabuk, Jizan, and Al Baha revealed an ambivalent response from the agricultural sector. Some farmers are shifting to crops with higher export potential or more efficient water usage, while others expect the government to sustain or even increase its purchasing of domestic grain in response to growing discontent over high food prices. Their decision is further complicated by labor concerns and the uncertain direction of provincial economies.

#### DWINDLING AQUIFERS IN TABUK

12. (C) During a March 23 visit to the northwestern wheat-producing province of Tabuk, Pol/Econoffs met with the regional council, where members described the agricultural sector's reliance on aquifers and their alarm over the dropping water table. They also confided their belief that water concerns will lead the SAG to reduce funding for agricultural infrastructure in favor of projects that would develop other sectors of the economy. They cited a recent increase in financial support from Riyadh for new universities, hospitals, and power grids in the province.

13. (C) Council members said that Riyadh has also approved the construction of ten wells and eight dams in the province, but that these are not expected to provide a long-term solution for the region's current rate of water usage. They also said that several desalination plants have been commissioned, but that desalinated water is too expensive for agricultural use and will be restricted to human consumption for the foreseeable future.

14. (C) Pol/Econoffs visited the Tabuk Agricultural Development Co. (TADCO), where the manager, Saeed Salem Al Omar (strictly protect), showed some wheat fields that may be converted to add to production of fruit, potatoes, and olive oil. Although TADCO's wheat production is consumed domestically, Mr. Al Omar said that it exports olive oil to Europe, and hopes to expand this market significantly. At nearby ASTRA Farms, Pol/Econoffs observed newly expanded facilities for harvesting and processing flowers, which are also aimed at European markets. Mr. Al Omar said that TADCO has invested millions of riyals in irrigation technology to conserve water, and noted that most of the consultants on its payroll specialize in reducing water consumption. An

engineer on site said that the farm's water efficiency has roughly doubled in the past 20 years.

AL BAHHA NERVOUS ABOUT LOW RAINFALL, UNCERTAIN ABOUT FUTURE AGRICULTURAL POLICY

15. (C) During an April 15 visit to the southwestern agricultural region of Al Baha, Pol/Econoffs heard separately from both Governor Prince Mohamed Bin Saud and the municipal council that the decreasing availability of water, following a year of low rainfall, was among their greatest concerns. Unlike Tabuk, Al Baha relies more heavily on precipitation and dams than on aquifers. Council members said that although wheat was not a dominant crop in Al Baha, they are concerned that the SAG's decision to end its wheat self-sufficiency efforts could foreshadow a broader pullback in government support for agriculture. They also said that although they are trying to diversify their economy by expanding Al Baha's manufacturing and tourism sectors, the region's economic health will continue to depend on the success of its farms.

RESPONSES TO INFLATION FAIL TO CURB PRICES, MAKE IT MORE DIFFICULT TO HIRE SAUDIS

16. (C) The SAG has responded to high inflation rates, particularly in food prices, by cutting import duties on a wide range of goods. Mr. Al Omar of TADCO said that any downward price pressure this might place on his company has been more than offset by continuing inflation in the world food market. Asked to speculate whether high food prices might cause the SAG to reconsider the decision to end its wheat self-sufficiency program, Mr. Al Omar said he did not think so, although he did expect the government to play an

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increasing role as a buyer of domestic wheat and other grains. (NOTE: local press reported on April 21 that the Ministry of Agriculture is proposing to increase the price of wheat purchased from local farmers, but MoA contacts have confirmed that the phase-out is still proceeding, with a 12 percent reduction in domestic production expected in 2008, along with the first wheat imports since 1985. END NOTE.) Mr. Al Omar also said that recent government salary increases, also a response to inflation, will exacerbate the tendency for Saudis to eschew agricultural jobs in favor of government employment.

STRUGGLING TO CREATE JOBS THAT SAUDIS WILL TAKE

17. (C) Council members in Tabuk, Jizan, and Al Baha all cited job creation as a top priority, but admitted that most Saudis are reluctant to work in the agricultural sector. Farm managers in all three regions described a heavy reliance on South Asian and African expatriates for manual labor. Technical and managerial positions are often filled by Egyptian, Indian, or Pakistani expatriates, the result of both a skills gap in the Saudi workforce and the widespread belief that even skilled agricultural vocations require more work for less pay than jobs in the government sector. Nonetheless, council members in all three regions expressed hope that modernizing farms, in coordination with new universities, could induce more Saudis to take agricultural jobs.

18. (C) At banana and mango farms operated by the Jizan Agricultural Development Company (JAZADCO), Pol/Econoffs observed recent investments in mechanization and transportation that reduce the manpower required for irrigation and harvesting. This modernization has added new technical jobs which are currently filled by expatriates. Asked whether many such positions might eventually be filled by graduates of the recently launched Jizan University, a Saudi manager was skeptical, saying that university students tend to favor employment in the commerce, medical, or government sectors. At nearby shrimp farms operated by

JAZADCO and the Saudi Fisheries Company, Pol/Econoffs met with executives who expressed similar doubts. One said that the Saudi shrimp industry's traditional purpose is food security, not job creation. "It's the same priority that originally motivated wheat self-sufficiency," he said, "only instead of limited groundwater, we have the Red Sea."

19. (C) COMMENT: In addition to slowing the decline of groundwater reserves, the decision to end wheat self-sufficiency is congruent with other actions the SAG is taking to modernize its economy and bring skilled jobs to the Kingdom, such as making large investments in education and infrastructure. Although rising food prices could prove to be a greater short-term concern than unemployment, the government's large oil-funded budget surplus should give it the option of covering any food shortfall through imports, even at inflated world prices. END COMMENT.  
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